

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 1020 – SB 1086

May 3, 2017

SUMMARY OF ORIGINAL BILL: Defines “short-term rental unit” as a residential dwelling, including a single-family dwelling or a unit in a multi-unit building, such as an apartment building, condominium, cooperative, or time-share that is rented wholly or partially for a fee for a period of less than thirty continuous days. Defines “short term rental unit provider” as any person or entity engaged in renting a short-term rental unit to an occupant. Defines “online short-term rental unit marketplace” as any person or entity that provides a digital platform for compensation, through which a third party offers to rent a short-term rental unit to an occupant.

Requires short-term rental unit providers which furnish short-term rental units to transients to pay any occupancy tax, sales tax, and other applicable taxes. Establishes that a short-term rental unit marketplace is required to collect and remit taxes for short-term rental unit providers using such short-term rental unit marketplace services.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue –

\$346,200/FY18-19/General Fund

\$4,000/FY18-19/Department of Revenue

\$692,400/FY19-20 and Subsequent Years/General Fund

\$8,100/FY19-20 and Subsequent Years/Department of Revenue

Increase State Expenditures - \$76,100/FY18-19

\$145,800/FY19-20 and Subsequent Years

Increase Local Revenue - \$369,600/FY18-19

\$739,200/FY19-20 and Subsequent Years

IMPACT TO COMMERCE OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENT (008273): Deletes all language after the caption and rewrites the bill such that the substantive changes are as follows: (1) restricts the legislation to the cities included in the Metropolitan Government of Nashville and Davidson County, Memphis, Knoxville, and Chattanooga; (2) requires the Department of Tourist Development to

HB 1020 – SB 1086

complete a review of the economic impact of short-term rental units on the tourism industry and overall economy of Tennessee on or before July 1, 2018, and to submit a written report of its findings and recommendations to the Speakers of the House of Representatives and the Senate; (3) authorizes the Department of Revenue to enter into a written agreement with an online short-term rental unit marketplace for the collection and remittance of taxes; (4) prohibits local governing bodies from taking action that would prohibit or effectively prohibit the use of property as a short-term rental unit unless such prohibition was a local law prior to April 1, 2017 and repeals such prohibition on April 1, 2019; and (5) changes the effective date for the entire legislation to effective upon becoming law.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Revenue – Exceeds \$138,500

**Increase State Expenditures - \$1,600/One-Time
\$67,300/Recurring**

Increase Local Revenue – Exceeds \$179,700

Assumptions for the bill as amended:

- The Department of Tourist Development will conduct its review and submit a written report of its findings and recommendations to the Speakers of the House of Representatives and the Senate within existing resources using existing staff. Any fiscal impact is estimated to be not significant.
- It is assumed that Department of Revenue (DOR) will enter into written agreements with online short-term rental unit marketplaces to streamline the collection and remittance of taxes.
- The following assumptions are based on the New York State Attorney General 2014 report (Airbnb in the city), and the DOR's search of Airbnb's website for rentals in Tennessee.
- It is estimated that there are approximately 9,000 short-term rentals available each year in Tennessee.
- The fiscal analysis focuses on Airbnb rentals as it is estimated that applicable taxes are charged on most of the other platforms offering short-term rentals.
- An average property listing is assumed to be reserved 14 times per year, for a total of 126,000 reservations in Tennessee (9,000 x 14).
- It is estimated that Metro Nashville, Memphis, Knoxville, and Chattanooga account for at least 20 percent of state-wide rentals resulting in at least 25,200 annual reservations (126,000 reservations x 20%).
- The average consideration charged per reservation is estimated to be \$362.

- The total consideration charged for rentals in Metro Nashville, Memphis, Knoxville, and Chattanooga is estimated to exceed \$9,122,400 (25,200 x \$362).
- The current sales tax rate is 7.0 percent; the local option sales tax is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent; the average local hotel occupancy tax for the eligible cities is 6 percent.
- It is estimated that approximately 75 percent of sales and occupancy are currently being collected; therefore, 25 percent of the sales taxes remain uncollected.
- This legislation states that a sales tax does not include a separately stated service fee imposed by an online short-term rental unit marketplace on a short-term rental unit transaction, which is equal to approximately 10 percent of the total average reservation; therefore, sales taxes would apply to approximately 90 percent of the average reservation.
- The recurring net increase in state sales tax revenue is estimated to exceed \$138,481 $[(\$9,122,400 \times 7.0\% \times 25.0\% \times 90.0\%) - (\$9,122,400 \times 7.0\% \times 3.617\% \times 25.0\% \times 90.0\%)]$.
- The total recurring increase in local sales tax revenue is estimated to exceed \$56,510 $[(\$9,122,400 \times 2.5\% \times 25.0\% \times 90.0\%) + (\$9,122,400 \times 7.0\% \times 3.617\% \times 25.0\% \times 90.0\%)]$.
- The recurring increase in local hotel occupancy tax revenue is estimated to exceed \$123,152 $(\$9,122,400 \times 6.0\% \times 25.0\% \times 90.0\%)$.
- The total recurring increase in local tax revenue is estimated to exceed \$179,662 $(\$56,510 + \$123,152)$.
- An additional Taxpayer Services Rep 3 within the DOR will be necessary to process additional tax filings required by this proposed legislation.
- A recurring increase in state expenditures of \$67,266 (salary \$50,295 + benefits \$15,271 + communications \$1,400 + supplies \$300).
- There will be a one-time increase in state expenditures in FY17-18 for the position estimated to be \$1,600.

IMPACT TO COMMERCE WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- Imposition of state and local taxes is not anticipated to significantly impact the number of annual nightly rentals in the state.
- All sales taxes and hotel occupancy taxes are paid by transients; not business owners.
- Any impact on private sector jobs is estimated to be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

/amj